Management and control of
public finances in Canada

Background Paper

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THE MANAGEMENT AND CONTROL OF PUBLIC FINANCES IN CANADA

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INTRODUCTION

During the fiscal year from 1 April 1994 to 31 March 1995, the federal government spent almost $161 billion, of which public debt charges alone accounted for $42 billion. Revenues amounted to $123.3 billion, so that the deficit amounted to $37 billion. The federal government's liabilities totalled nearly $583 billion.

In view of these figures, the need for excellent financial management is clear. A simple accounting error or slight hitch in a government program could result in a loss of several hundreds of millions of dollars. Financial controls are even more important in a context of budgetary restraint like that in Canada today.

The tabling of the budget papers on budget day ends the budget development process. A cycle of financial management that extends over more than 20 months then begins. The purpose of this cycle is to ensure that public funds are spent correctly, efficiently and as directed by Parliament.

This paper emphasizes financial management rather than budget development. It explains the public finance management cycle in detail. Before we examine the cycle and the various players in detail, it is helpful to know the organizations and departments involved in the budget process so as to have a better idea of how the income and expense budget is developed. We will then review the public finance management cycle, beginning with the role of Parliament and ending with that of the Public Accounts Committee.

A. The Budget Process

In the spring, Cabinet meets to assess the results of the last budget and to set major priorities. Previously announced initiatives are taken into account and new positions are formulated. Departments draw up multi-year activity plans on the basis of the resources available to them. Treasury Board reviews the plans to ensure that they are consistent with the budget objectives and evaluates the plans' impact on policies. During the summer, the government develops strategies and options to be examined by the Department of Finance, which prepares a financial and economic outlook update.

In the fall, the Department of Finance publishes documents for the budget consultation process, which will involve experts, provincial ministers and the general public. While consultations are taking place, reduction and reassignment options are developed. The Department of Finance weighs different positions and draws up the broad budget outline.

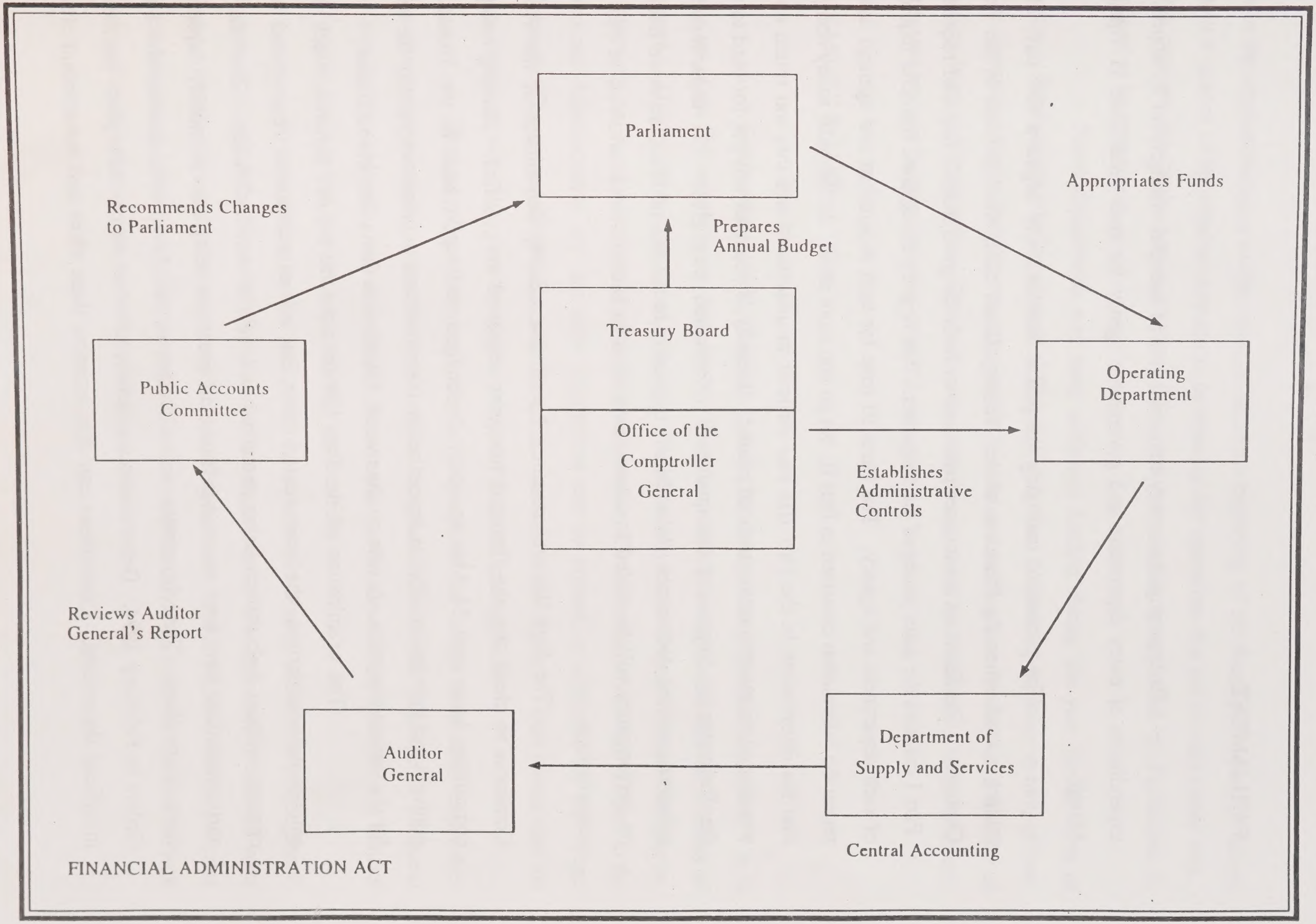
During the winter, the government makes the final decisions. The Minister of Finance delivers the Budget Speech and the President of the Treasury Board tables the Estimates. The budget process is then complete and the financial management of the budget decisions begins.

B. Managing and Controlling the Public Finances

The Financial Administration Act (FAA) sets the framework for the whole public financial management cycle. The following figure illustrates clearly how the Act controls the government's financial operations. This Act, passed by Parliament in 1952 and amended several times since then, controls the government's financial activities. As its name indicates, the Act establishes the main rules of financial management that the government departments and agencies must follow.

The FAA specifies the responsibilities of Treasury Board, the Comptroller General and the Department of Finance which, as we will see, are, along with the Office of the Auditor General, the key players in managing the government's finances.

CYCLE FOR MANAGEMENT OF PUBLIC FINANCES



Source: Kenneth Kernaghan and David Siegel, *Public Administration in Canada*, Methuen, Toronto, 1987, p. 568

PARLIAMENT

Parliament plays a very important role in financial management by approving the expenditures of every department and government agency for each fiscal year (1 April to 31 March).

The process of managing the public finances really begins a few days after the budget is read, when the President of the Treasury Board tables the Estimates in the House of Commons. The Estimates are in three parts and set forth the government's financial requirements. Part I contains the main points of the Estimates. Part II gives the detailed financial requirements of each department and agency. The Parts III (one for each department and agency) essentially repeat the information contained in Part II, but go into more detail. In the past, many complained that the information in the Part IIIs was difficult to understand and that too much emphasis was placed on receipts rather than on results. Recently, a proposal was put forward to reform the Estimates by improving the quality of information they give. Six departments have submitted revised documents. In addition, beginning in the fall of 1996, separate documents on performance will be tabled to allow committees to become more involved in the budget consultations.

The Part IIIs are examined by various standing committees of the House of Commons to check that the financial resources requested are justified. Barring exceptions, committees have until 31 May to adopt the budgets and report back to the House. The ministers and their senior officials appear before the committees to present and justify the expenses for the various programs. A vote on the overall Estimates is then taken in the House.

The examination of the Part IIIs does not, as a rule, generate much interest among parliamentarians, the main reason being that committees cannot recommend funding changes without their actions being perceived as a vote of non-confidence. Over the years, parliamentarians have been somewhat frustrated about not being able to modify departmental expenditure plans. Their frustration was addressed in part by an amendmentto the Standing Orders in February 1994. Departments are now required to set out their plans for the future in official documents. Committees can then examine these plans and recommend changes.

Since the appropriations are often voted on after the beginning of the fiscal year, the Act allows about a quarter of the required amounts to be released for operations that are already under way. New projects can begin only when the funding has been definitely approved by Parliament or deemed to be approved.

Some departments may need additional funding during the year for all sorts of reasons. For example, the Department of Defence could face unforeseen expenses in time of war. The government must then present supplementary estimates seeking new funding or a transfer of funding between departments. These estimates must be approved by Parliament. Supplementary estimates are usually presented two to four times a year, as required.

TREASURY BOARD

Established in 1867, Treasury Board (TB) is the oldest Cabinet committee. It is made up of six Cabinet ministers, including the President of the Treasury Board and the Minister of Finance. Unlike other committees, Treasury Board, through the Treasury Board Secretariat, employs several hundreds of public servants. Furthermore, TB is the only committee subject to the *Financial Administration Act* (the other committees can be created or abolished by the Prime Minister). The Act establishes Treasury Board as a central control agency. This means that the Board has the power to regulate the various aspects of financial management.

Treasury Board has many tasks: it prepares the Main Estimates, establishes rules for government disbursements and receipts (contracts, purchases, issuance of cheques) and establishes accounting policies. In fact, these tasks can be summarized as exercising control over public funds so that they are spent honestly and carefully.

By proceeding in this way, it is easier to avoid abuses and errors of judgment; however, this approach allows little flexibility within departments. For example, if officials want to bypass certain rules, they must convince TB that it is justified. All this rigour sometimes creates tension between the Board and departments. Officials complain about the many delays and the lack of delegation of authority that result from this practice.

Treasury Board is also responsible for program evaluation within government. While departments have responsibility for evaluating their own programs, Treasury Board, through the Secretariat, can carry out certain examinations affecting more than one department. Treasury Board also establishes guidelines for evaluations, audits and reviews.

From 1978 to 1993, certain tasks such as formulating accounting policies and program evaluation guidelines were assigned to the Office of the Comptroller General, an agency separate from the Treasury Board with responsibility for financial management issues. The OCG was integrated with the Treasury Board Secretariat in 1993.

DEPARTMENTS

The departments' role in financial management is limited to complying with the established rules. Departments must first ensure that their expenditures have been approved by Parliament and that they still have the funds for them. They must then ensure that the goods and services bought were indeed received and met the contract requirements. In the case of a subsidy or transfer payment, the departments must ensure that the recipient is truly entitled to such a payment.

The departments must also conduct internal audits and program evaluations. Although departments are given a budget to work with, they cannot acquire goods valued at over $5,000. When the cost exceeds this ceiling, the departments must make arrangements for the acquisition with Public Works and Government Services Canada.

PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

With respect to financial management, Public Works and Government Services Canada (PWGSC) acts as a central accounting agency responsible for the receipt and disbursement of public funds.

When a department approves the purchase of a particular good or service, PWGSC ensures that the department has the funds required for this expense in its budget, and

only then issues a cheque for the acquisition. PWGSC takes it for granted that the department has fully complied with all purchasing procedures.

Together with Treasury Board, PWGSC is responsible for the government's accounting system. These two agencies must ensure that everything is done in accordance with established accounting policies and conventions. Under the authority of the Receiver General for Canada, PWGSC prepares and publishes the annual financial statements found in the Public Accounts.

The Public Accounts, now tabled in December of each year, nine months after the end of the fiscal year, present the financial operations of the government. They give the detailed revenues and expenditures of the government and its departments and agencies.

OFFICE OF THE AUDITOR GENERAL

The Auditor General is one of the most visible players in the public finance management cycle. The mandate of the Office of the Auditor General is to transmit the appropriate audit data to the House of Commons. The *Auditor General Act* provides that if funds were spent for purposes other than those assigned by Parliament or without regard to economy or efficiency or if satisfactory procedures were not established for measuring program effectiveness, the Auditor General must report that fact to the House of Commons. The Act requires the Auditor General to "call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons..." Prior to 1994, the OAG prepared only one annual report containing the Auditor General's observations and recommendations. Now, in addition to the annual report, the law allows publication of three periodic reports.

To carry out these duties, the *Auditor General Act* grants the Office a great deal of independence. Unlike most of the public service, the OAG does not report to a minister of the Crown. The Auditor General, who is appointed for a non-renewable term of ten years, is independent and can therefore choose what to examine and report on.

The OAG's role is to audit the government's programs and financial activities after the fact and to report on them to the House of Commons. Financial statements are audited to

ensure that the information contained in the financial reports of departments, agencies and Crown corporations is presented accurately. The Auditor General must also evaluate the accounting methods used in the government's public accounts and report to the House of Commons; in this way, the Auditor General acts like any auditor in the private sector.

In addition to this attest audit, the Auditor General must also conduct a comprehensive audit, an exercise that responds to the concerns of parliamentarians and taxpayers. Guided by considerations of economy and efficiency, the Auditor General must determine whether the spending of public funds was properly authorized and the best use made of resources.

The OAG acts as an ongoing positive force. The Auditor General's examinations can prevent waste or loss or lead to faster correction of unsatisfactory situations. Sometimes it is only because of Parliament's public review of his annual reports that the Auditor General can force the appropriate parties to correct the deficiencies that he has detected. Nevertheless, it should be noted that even without the parliamentary review, officials are urged to attach great importance to improvement.

Therefore the Auditor General encourages better financial management and control within the government. He makes the government more accountable to parliamentarians and Canadians. Parliamentary committees make the Auditor General's task easier because they act as an ultimate deterrent. As we shall see, the Auditor General and the Public Accounts Committee make up a special team for protecting public funds.

HOUSE OF COMMONS STANDING COMMITTEE ON PUBLIC ACCOUNTS

By its examination of the public accounts, the House of Commons Standing Committee on Public Accounts completes the government's public financial management cycle. This committee, chaired by an opposition member, ensures that departments, agencies and Crown corporations are accountable to Parliament. The committee's mandate is to ensure that optimum use is made of resources. It must determine whether government policy and the observed results fulfil the previously set objectives. It does not call into question the rationale of government programs, but rather the efficiency and soundness of their implementation. Its role is to

understand, evaluate and correct after the fact (through recommendations made in its reports to the House of Commons) the deficiencies and flaws noted by the Auditor General.

Since the committee is not concerned with government policy, it can be non-partisan, deal with problems and seek solutions. To fulfil its mandate, the committee uses criteria of efficiency, effectiveness and administrative simplicity (cost of administration) in its examinations. To pursue its work, the Standing Orders of the House allow the Public Accounts Committee to summon individuals and demand that documents and records be submitted as well as to study and investigate all questions referred to it by the House.

The Public Accounts of Canada and the annual report and periodic reports of the Auditor General are automatically referred to the Public Accounts Committee as soon as they are tabled. The committee can thus immediately investigate the issues raised in these documents and report if it sees fit.

The committee spends 90% of its time considering the Auditor General's reports. In light of the Auditor General's observations, the committee invites the responsible officials to answer questions from members of the Public Accounts Committee. When this committee examines the Auditor General's annual report, the observations in it take on a whole new dimension. The Public Accounts Committee can usually influence bureaucrats who have managed public resources inefficiently to change their ways. The risk of having the Public Accounts Committee report to the House of Commons on bureaucratic incompetence usually ensures that senior officials summoned before the committee agree to take corrective action.

Less frequently, the committee selects important aspects of the Public Accounts or financial reports of Crown corporations for more thorough consideration. In this case, the committee then examines the accounting methods used by the government or Crown corporations to ensure that they comply with the principles generally recognized in the profession.

The presence of the Auditor General in departments and Crown corporations is a deterrent to irregularities that lead to waste, misuse of funds and fraud. The Public Accounts Committee is a valuable ally of the Auditor General; without it, the Auditor General's reports would probably lose much of their deterrent effect. A possible sanction is to be called to appear before the Public Accounts Committee. The possibility of such a sanction enables parliamentarians

to put the maximum pressure on reluctant bureaucrats to explain their actions or take corrective action.

CONCLUSION

More than two years elapse between the preparation of the budget estimates and the time when the Public Accounts Committee can really close the budget process. Some critics say that the process takes much too long and does not provide fast enough information for parliamentarians and Canadians. Nevertheless, given the huge size of the task and the many people and groups involved in the budget and the public financial management cycle, it would be very difficult to speed up the process. One might say that the time taken is the price we pay for good, sound financial management. There is always room for improvement, however; the introduction of the OAG's periodic reports is one good example of this. They enable the Public Accounts Committee to address expeditiously the problems brought to light by the Auditor General.